Report of the Task Force on Klamath County Government Employee Compensation

January, 2016

Executive Summary

In July 2015 the Klamath County Commissioners appointed a task force to examine how the compensation package paid to County government employees compared to compensation practices in the private sector labor market in Klamath County. As members of that task force, we have examined the issues, looked at data and consulted with employers in the community.

Rising compensation costs – particularly for health benefits and retirement plans – are a concern for policymakers at every level of government. Policymakers in Klamath County and elsewhere are seeking to craft solutions that make compensation costs manageable without putting governments in an uncompetitive position in terms of attracting and retaining the employees they need. To make such decisions, however, policymakers require information regarding how the compensation they offer compares to the job alternatives available to their employees. For that reason, public-private pay comparisons have been an active area in recent years.

We chose to limit our analysis to non-public safety County positions, as these positions are most comparable to occupations in the private sector. This is not to say that compensation practices for public safety positions do not deserve attention, but it is more difficult to compare these jobs to private sector positions.

In general, experts on public administration believe that the most efficient and fair approach is to compensate public employees at similar levels to what those employees would receive in private sector employment. This approach allows a government to attract and retain the employees it needs without "overcharging" the taxpayer. A public-private compensation comparison can assist in reaching that goal.

Conducting a public-private compensation comparison is challenging even on a state or national level, where data are relatively easy to come by. It is more challenging at the county level, where common data sources – such as survey data gathered by the U.S. Census Bureau – do not have large sample sizes. For that reason, we approached the question from a variety of angles: we utilized government survey data where available, but also gathered data through individual contacts with Klamath County employers and by looking at salaries and benefits offered in local job advertisements. No study of this kind can offer certainty in its findings, but we were able to come to a number of broad conclusions.

To begin, salaries offered by the County appear to be roughly comparable to those offered in the private sector, either for similar jobs or for jobs demanding similar levels of education and experience. Salaries are not identical and any given County employee might be able to receive a higher or lower salary were he or she to work in the private sector. However, we saw no significant skew in one direction or the other such that we could concluded that the salaries offered by the County caused its employees to be "overpaid" or "underpaid."

Our analysis of fringe benefits, on the other hand, did tend to find that the County offers a considerably more generous benefits package than most local employers. County employees receive a retirement package and health coverage that is generous by private sector standards, along with greater paid leave than appears to be offered by most private sector jobs in the County. If the County Commissioners choose to address compensation issues, the benefits side of the pay package appears the more appropriate place to look.

We appreciate the opportunity to consider these important issues and we hope that our work contributes to sound public policy and management in Klamath County.

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Why Compare Public to Private Sector Compensation?

The task force was charged by the County Commissioners with comparing the compensation of County government employees to that of employees in the private sector. Klamath County already compares County employee salaries and benefits to those offered by a number of other county governments in Oregon. Given this, why should a second set of comparisons be made? Several reasons come to mind.

The first reason is that the County should ensure that its compensation is competitive with that of the labor market from which it hires its employees. Our discussions with County administrative staff indicate that only a few County employees are hired away from other County governments. Instead, the vast majority of County employees are hired from the private sector. Thus, if the County wishes to know its ability to attract and retain employees, it must compare its compensation practices to the salaries and benefits paid in the labor market from which it draws its employees.

Second, the other Oregon counties to which Klamath County currently compares pay and benefits may have different costs of living than Klamath County. Higher or lower costs of living may affect the compensation these counties pay to their employees. For instance, the median listing price for homes for sale is substantially lower in Klamath than in other counties used for pay comparisons. Housing costs generally make up about 40 percent of total consumer expenditures, making such differences important. Other figures also show significant differences from one county to the next. These figures include rental price data from the Department of Housing and Urban Development; wage data from the Bureau of Labor Statistics; the cost of a basic standard of living calculated by researchers at the Massachusetts Institute of Technology; and overall cost of living data produced by the Center for Regional Economic Competitiveness. Food costs, which make up about 17 percent of the average household's expenditures, also vary significantly from county to county. For instance, Lincoln County has food costs about 7 percent higher than Klamath, while Umatilla County food costs are about 5 percent lower than Klamath County.[1] If private sector workers do not demand or receive the same pay in different Oregon counties, there is little reason to believe that public sector employees would or should either.

[1] Source: FeedingAmerica.org.

Third, when taxpayers consider issues of fairness, they generally think how their own pay and benefits compare to those of government employees whose taxes they support, not how pay in their government compares to that of some other government. This does not mean that average public and private sector salaries and benefits need to be identical. The public sector has a higher percentage of white collar jobs that demand education and skills, and so it should not be surprising that public sector compensation is above the average paid in the private sector. But there is no economic reason that similar employees should receive markedly different compensation in and outside of government. Paying public employees at levels comparable to what those employees would receive in private sector jobs is generally taken to be fair to both parties, in that it pays public employees a competitive salary and benefits package without overpaying them.

For these reasons, compensation comparisons to employees in the local labor market can provide useful information to County government officials and to residents of the County.

Comparing County Government Salaries to the Private Sector

There are two main ways in which analysts compare public and private sector salaries. The first, called the "jobs-to-jobs" approach, compares the salaries paid by public and private sector employers to employees in the same job. The second, which we can call the "person-to-person" approach, compares salaries for public and private sector employees with similar attributes that affect pay, principally education and experience but also including gender, marital status and other factors.

The jobs-to-jobs approach is more commonly used by human resource officers within a given industry. However, this approach has several limitations when applied to public-private pay comparisons. First, many government jobs do not have direct companions in the private sector, which limits the number of jobs for which comparisons can be made. Second, there is no certainty that employees holding a given job in the public and private sectors have the same level of education and experience. If those attributes differ across sectors, and there is some evidence that they do, a pure jobs-to-jobs approach would produce inaccurate results. Moreover, the data needed for a jobs-to-jobs comparison are not easily available in a small labor market such as Klamath County's. For that reason, we needed to gather salary figures as best we could via personal contact and internet research.

The person-to-person approach – which economists term the "human capital model" – is most commonly used by economists and other policy analysts. The Congressional Budget Office (CBO) has termed the person-to-person approach "the dominant theory of wage determination in the field of economics."[2] The person-to-person approach works from the presumption that most salaries differences are driven by differences in the productivity of the employee, not from the job the employee is placed in. The reasoning is that individuals with similar skills will shift between jobs such that eventually jobs demanding similar skills will pay employees similar levels of compensation. This implies that, in general, if you know a person's education and experience, you can make a fairly accurate prediction of their salary even if you do not know their occupation. Studies that compare public and private sector pay on a state or national level generally rely on a person-to-person approach. However, the person-to-person approach relies upon Census Bureau survey data, for which sample sizes at the county level are generally small.

Broadly speaking, the two approaches should be at least roughly compatible. And while neither approach is perfect, both have something to add. To start, however, we review some of the research conducted at a national and state level to provide a feel for the state of current analysis.

In a 2011 study, two Bureau of Labor Statistics (BLS) economists analyzed pay for state and local government employees using both a person-to-person and a modified jobs-to-jobs approach.[3] Their person-to-person approach used Census data to compare pay for state or local government employees to that of private sector workers with similar education, experience and other earnings-related attributes. Their modified jobs-to-jobs analysis relied upon the BLS's National Compensation Survey, which includes a rating of the skills required for a given job performed at a given level. (That is, for any given occupation there are multiple levels of skill-requirements.) Their person-to-person analysis found that, nationally, local government employees receive salaries about 3.5 percent higher than private sector workers with similar levels of education and experience. Their jobs-to-jobs analysis found that local government employees received salaries about 9.2 percent higher than private sector employees in jobs with similar skill requirements. Public employee salaries can differ from state to state so there is no reason to assume that these figures apply directly to Oregon or to Klamath County specifically. However, they provide an idea of the neighborhood of the results found at the national level.

Using Census Bureau data, we can analyze salaries for Oregon local government employees specifically, as well as focusing down more closely on local government employees in rural Oregon and

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[2] Congressional Budget Office, "Comparing the Pay of Federal and Nonfederal Law Enforcement Officers," (August 2005).

[3] Maury Gittleman and Brooks Pierce, "Compensation for State and Local Government Workers," *Journal of Economic Perspectives* 26(1) (2011): 217-242.

in Klamath and surrounding counties. The data come specifically from the Census Bureau's American Community Survey, which is the successor to the former "Long Form" of the decennial census. We looked at data for the years 2003-13 in order to build as large a sample as possible.

To start, we compare the salaries of full-time, full-year Oregon local government employees to full-time, full-year private sector employees, after controlling for differences in age, education, local cost of living, weekly work hours, and a range of demographic factors (including gender, race, marital status, immigrant status and Hispanic status). This analysis finds that Oregon local government employees receive a statistically significant 1.9 percent salary advantage over similar private sector workers.

To make this person-to-person approach more closely approximate a jobs-to-jobs analysis, we add controls for the worker's occupation. Thus, where possible, the analysis will compare public and private sector employees in similar jobs, while also considering differences in education, experience and other factors. This analysis shows the salary difference for local government employees throughout Oregon is a statistically significant local government salary advantage of 4.2 percent.

Analysis of local government employees throughout Oregon includes employees in large cities such as Portland, Eugene and Salem. If these city-based employees receive large salary premiums relative to private sector workers, including them could hide a salary disadvantage paid to local government employees in rural areas.

To check, we restricted the Census data in several ways. First, if we restrict the analysis only to Oregon local government employees who live *outside* a metropolitan area, the salary premium rises to 4.9 percent and remains statistically significant.

Second, if we restrict the data to only Klamath, Lake, Harney and Malheur Counties, the local government employee salary premium rises to 6.2 percent. The Census data do not make it possible to look at only Klamath County public employees. However, due to a shrinking of the sample size, the estimated salary premium is no longer statistically significant. This means that we cannot be confident that actual salary differences between similar local government and private sector employees are different from zero.

As a best guess, these data indicate that – on average – salaries for Klamath County employees are likely to be similar to those of private sector employees with similar education and experience and working in similar jobs. This is particularly so given that Klamath County already benchmarks its government employee salaries against those of government employees in other counties in Oregon. If

Klamath County pays roughly comparable salaries to other counties in Oregon, and if local government employees overall in Oregon receive comparable or slightly higher salaries than similarly-qualified private sector employees, then by extension it is likely that Klamath County's salaries are comparable as well.

In addition, we gathered salary data as possible to perform our own jobs-to-jobs analysis. We should note ahead of time that the data we could obtain were very limited. One reason for this is that several larger local employers were wary of sharing salary data for fears that doing so could look as if they were attempting to coordinate salaries with other local employers, which would not be legal. However, we were able to obtain some salary figures directly from local employers and other figures from job advertisements. These examples tend to support the person-to-person analysis finding that County salaries are at least roughly on par with those of the local private sector labor market.

One source of private sector wages was job advertisements from the Sky Lakes Medical Center. For instance, Sky Lakes has advertised a number of registered nurse positions at wages between $32 and $44 per hour. Based on budget data, a public health nurse employed by the County receives a salary of between $30 and $35 per hour. Likewise, Sky Lakes has advertised a nurse practitioner position at an annual salary of $105,536, whereas public records indicate that a two-thirds time nurse practitioner employed by the County is paid about $69,000, equivalent to an annual salary of $104,400. Similarly, Sky Lakes advertised for a human resources assistant at a wage of $16 to $23 per hour. Assuming 50 weeks work per year at 35 hours per week, total annual wages would equal $28,280 to $39,515. The county, by contrast, employs several half-time HR assistants at annualized salaries of $26,600. Sky Lakes also advertised a position for a patient access representative, which demands keyboard skills and clerical experience and acts as a general office secretary and clerical worker. This position was offered at between $12.78 and $17.86 per hour. The job description for "Secretary I" employed by the County is similar, and pays between $13.68 and $17.78 per hour.

We spoke with one local company regarding the salaries and benefits it pays. Truck drivers employed by this company were paid between $15 and $18 per hour. A second employer we spoke with paid truck drivers between $17.25 and $20.27 per hour. Truck drivers employed by the County receive hourly wages of approximately $27.35 to $28.74.

Another private employee we spoke to paid a lube man $24.82 per hours in wages. A lube man employed by the County received hourly wages of $27.35. Mechanics in the County's public works department are paid approximately $30 per hour. A local employer we consulted paid heavy equipment mechanics $24.75 per hours. One local employer paid accounting clerks $17.39 per hour; the County pays accounting specialists approximately $19.46 hourly.

Certainly, we could find only a small sample of private sector pay rates to compare to similar jobs in the County government. And in that sample, the wages we found are not exactly alike between public and private sector. It would not be surprising if any given employee, working either in the public or private sector, might find that he could raise his pay by switching jobs.

At the same time, however, wages and salaries did not appear to be wildly different between County government and the private sector. Our examination of local wages, coupled with broader analysis using Census Bureau data, do not lead us to the conclusion that County wages and salaries differ in a substantial or systematic way from the private sector labor market in Klamath County. Moreover, the differences in salaries we did see do not account for differences in benefits, which are discussed in later sections.

Comparing Employee Health Coverage

Many employers offer health coverage to their employees. In general, both employees and employers contribute toward their health plans. From the perspective of comparing employee compensation, what matters is the employer health care contribution. If employees choose to purchase a more generous health plan using their own funds, that does not affect how health plans differ from the point of view of overall compensation.

Comparing health coverage is made more difficult by the types of data that are publicly available. The County provides details on how much it contributes toward employee health coverage. The County offers full-time and half-time employees a variety of medical plans along with dental and vision coverage, Health Reimbursement Arrangement/Voluntary Employees' Beneficiary Associate (HRA/VEBA) plans, flexible spending accounts (FSAs) and an employee assistance plan for individuals with emotional or substance abuse problems. For most non-public safety employees, the County contributes $925 per month ($11,100 per year) toward health coverage. Employees can then choose among a variety of plans with different levels of service, employee premiums and deductibles.

However, most individual private sector employers do not publish details on their own contributions toward health coverage. We do know that large local employers, such as the Sky Lakes Medical Center, offer a variety of health plans with different employee costs and features. But it is generally difficult to discern from publicly-available data the employer's own per-employee health costs.

For that reason, we rely upon data gathered by the Kaiser Family Foundation for private employers throughout Oregon.[4] In 2014, the most recent year for which data were available, the average annual Oregon employer contribution toward single (employee-only) health coverage was $5,707. The average employer contribution toward family health coverage was $11,775.[5] In general, coverage in the private sector is roughly split 50-50 between single and family policies, implying an average cost for employers who provide health coverage of about $8,741.

Thus, compared to the typical private sector employer plan, County employees receive annual employer health contributions that are roughly $2,359 (27 percent) more generous. For the average County employee, who has an annual salary of about $41,000, the additional generosity of the County's health plan versus a likely private sector alternative was worth about an extra 6 percent of annual pay.

However, not every employer offers health coverage. In 2014, 57 percent of working-age Oregonians received employer-sponsored health coverage.[6] Going into the future, these figures will likely change as the Affordable Care Act continues to be implemented. At this time, however, it seems fair to conclude that County employees receive greater compensation through employer-sponsored health coverage than does the average private sector employee in Klamath County.

Comparing Retirement Plans

Retirement plans are an important part of many worker's total pay packages. About 42 percent of employees in rural Oregon report being offered a retirement plan at work, according to Census Bureau data for 2014. Part of a worker's compensation is the contributions his employment may make to his retirement plan. Unfortunately, it is difficult to compare the generosity of retirement plans in the public and private sectors. The reason for this is that government and private employees generally participate in different kinds of retirement plans.

Most private sector employees who are offered a retirement plan participate in a defined contribution (DC) program, the most common example of which is a 401(k) plan. In a defined contribution plan, the employer makes a set contribution to the worker's account each year but does not promise a specific benefit at retirement. Only a small number of employers (less than 20) based in

[4] Details are available at: http://kff.org/state-category/health-costs-budgets/employer-based-health-insurance-premiums/

[5] Employees on average contributed $914 for single coverage and $4,555 for family coverage.

[6] http://kff.org/other/state-indicator/rate-by-age-2/

Klamath County sponsor retirement plans, according to Form 5500 disclosures filed with the Department of Labor. However, if an individual is employed by a company based outside of Klamath County, such a worker may be offered a retirement plan. For instance, national retailers such as Albertson's and Sportsman's Warehouse offer 401(k) plans to their employees.

The monetary value of a 401(k)-type plan comes principally through employer matching contributions to the employee's accounts. For instance, Jeld-Wen offers its employees a 401(k) plan in which the company contributes an amount equal to up to 4 percent of the employee's pay. Sky Lakes Medical Center offers its employees a 401(a) plan, which is similar to a 401(k), to which Sky Lakes contributes up to 5 percent of employee pay.[7] Nationwide, a 3 percent maximum employer matching contribution is typical, though not every employee contributes enough to receive the maximum match.[8]

Columbia Forest Products offers a 401(k) plans, but does not appear to have an employer contribution.[9] Collins Products offers a 401(k) with an employer match, although the matching rate is unclear from publicly available information. Umpqua Bank, which has several locations in the County, offers employees a 401(k) with a 3 percent employer match.[10] Washington Federal Bank offers a more generous 401(k) plan. Employees are automatically enrolled with a 1 percent employee contribution, while the employer provides a contribution that in recent years reached 11 percent of employee pay.[11]

Most public sector employees, including those employed by the Klamath County government, participate in a traditional defined benefit (DB) pension. In a traditional DB plan, employees are not promised a contribution to their account each year. Instead, they are promised a specific benefit at retirement, which is generally based upon their final earnings and their number of years of service. Under the County plan, employees retiring after July 1, 2012 receive a benefit equal to 1.75 percent of their highest average page, defined as the highest 36 months of service in the final 10 years preceding

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[7] Moss-Adams LLP. Report of Independent Auditors and Consolidated Financial Statements with Supplementary Information for

Sky Lakes Medical Center and Affiliates. September 30, 2013 and 2012.

[8] Source: Bureau of Labor Statistics: http://www.bls.gov/ncs/ebs/detailedprovisions/2014/ownership/private/table52a.txt

[9] Source: http://401k-plans.findthecompany.com/l/134719/Columbia-Forest-Products-Inc-Employee-401-k-Retirement-Savings-Plan-and-Trust

[10] Online sources such as Glassdoor.com.

[11] Source: Washington Federal's Form 11-K filed with Securities and Exchange Commission. http://www.sec.gov/Archives/edgar/vprr/15/9999999997-15-011767

retirement. This amount is multiplied by the employee's number of years of service. Employees who retired prior to 2012 received a somewhat less generous retirement benefit.

Government plans are required to make available data on the benefits of retired participants. We sampled 20 recent retirees under the County's retirement plan. The average County pension plan beneficiary retired at 62.5 years of age and receives an annual pension benefit of $11,882 after 13.85 years of service. These average benefits were equal to 26 percent of the final earnings of recent retirees. Assuming the retiree survives until age 83, average lifetime benefits would total about $221,000.[12] However, benefits differ significantly based upon the number of years of service the retiree performed as a County employee. For those with less than 10 years of County service, annual benefits averaged $4,416, or 13 percent of final earnings. For those with between 10 and 20 years of service, benefits averaged $12,184, or 24 percent of final earnings. For those with 20 to 30 years of service, benefits averaged $20,863, or 38 percent of final earnings. For those with 30 or more years of service, benefits averaged $40,436, or 60 percent of final earnings of about $67,000. In addition, County employees participate in Social Security on the same terms as private sector employees. For a full-career employee with final earnings of $67,000, Social Security would pay annual benefits of about $15,384 for a combined total retirement income of about $55,000.

Unlike a defined contribution plan, where the employer's contribution is set, under a defined benefit plan the employer alters its contributions from year to year to ensure that benefits can be paid. Klamath County's actuarially-determined contribution has risen from about 6 percent of employee payroll in 2006 to around 18 percent of payroll in 2015.[13] These contributions are in addition to the 6 percent of pay contribution made by County employees themselves.

These differences in design make it more difficult to compare the value of the two types of benefits. As economists Dale Belman and John Heywood put it, "Since one type of plan fixes the costs, but provides an uncertain benefit, and the other type of plan fixes the benefit but gives employers an

[12] This value assumes a 5 percent interest or "discount rate" on benefit payments. Calculating a discounted "present value" allows lifetime benefits under a traditional pension plan to be compared to the lump sum 401(k) balance a worker would need at retirement age to generate similar benefits over the course of his retirement.

[13] Most County employees participate in the County's own retirement plan, called the Klamath County Employees' Pension Plan. A small number of County employees, mostly in public safety positions, participate in the Oregon Public Employees Retirement System (PERS). Because this report focuses on non-public safety employees, the discussion is limited to the County's retirement plan. But the qualitative issues are similar for employees who participate in Oregon PERS.

uncertain cost, it is very difficult to compare the relative costs and benefits of the plans. This complicates public/private comparisons because the private sector is more likely to provide defined contribution plans and the public sector defined benefit."[14]

The important difference between the County's traditional defined benefit pension and the 401(k) plans used by most private sector workers is that in a defined benefit plan the County bears any market risk. The County calculates its contributions on the assumption that it will earn 7.25 percent returns each year on the plan's investments. If the return on investments falls below 7.25 percent, as it has in recent years, the County – not employees – must increase contributions to make up the difference. In other words, what participants in a defined contribution plan receive are not only employer contributions, but investment earnings on those contributions that are protected against market risk. Participants in a 401(k) may receive an employer contribution, but are not protected against investment losses.

That protection against market risk is valuable to employees, but does not come without a cost to the government: the main reason that the County's pension contributions have tripled since before the Great Recession is that the pension plan's investments, like those of nearly every public sector pension around the country, have failed to meet their assumed return on investment. Even over long periods, investments in risky assets such as stocks are not guaranteed. In general, protection against investment losses is more costly to the pension provider – and more valuable to participants – than access to profits when investment returns exceed expectations.

To compare the generosity of County retirement benefits to the private sector, one might answer the question, "How much would a worker with a 401(k) need to save over their career in order to generate a retirement benefit equal in generosity and safety to what the average County employee receives?" Both generosity and safety matter, because a guaranteed benefit is more valuable to employees – but more costly for employers to provide – than a benefit that can fluctuate with the ups and downs of the stock market.

To illustrate, an individual who retired from the County at age 62 after 15 years of service and a final salary of $45,000 would receive an annual benefit of about $11,434. Again assuming the retiree survives until age 83, he could expect to receive about $146,601 in benefits over the course of his

[14] Dale Belman and John Heywood. "The Truth About Public Employees: Overpaid or Underpaid?" Economic Policy Institute. June 1, 1993.

retirement.[15] To match that benefit, a private sector employee with the same salary would need to build up about $146,601 in his 401(k) plan by the time he retired. Importantly, he would need to do so while investing in safe assets if he were to generate a retirement benefit that was as safe as the legally-guaranteed benefits offered by the County retirement plan. If we assume the private sector employee invested in guaranteed government bonds yielding 5 percent annual returns,[16] he would need to save about 19 percent of his annual salary over a 15-year career in order to generate the same benefits with the same safety as a County employee under the traditional defined benefit pension.[17] That 19 percent required saving rate is fairly constant for workers with different career lengths, declining only 18.75 percent for a worker with a 35-year career under the County retirement plan.

For most workers who are eligible for a 401(k) plan, the maximum employer matching contribution is about 3 percent of wages, according to the Bureau of Labor Statistics. This means that the employee himself would have to contribute about 16 percent of his annual wages to receive the same benefit that County employees receive based on a contribution of about 6 percent of pay. In other words, on average, the County retirement system is substantially more generous than the typical 401(k) plan offered by private sector employers. Roughly speaking, the additional generosity of the County plan is equivalent to about a 12 percent average increase in employee salaries.

Economists and government agencies have developed more sophisticated methods for comparing the value of employer contributions to 401(k)s and traditional defined benefit pensions. The Congressional Budget Office has applied these methods to pensions received by federal employees while the federal Bureau of Economic Analysis uses them to measure the compensation that state and local government workers receive through their retirement plans. While these methods are more sophisticated than the examples used here, they produce similar results.[18]

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[15] This is a discounted value, assuming a safe interest rate of 5 percent after retirement.

[16] Government bonds are currently yielding well less than 5 percent, which would increase the cost of replicating a benefit paid by the County pension plan. However, in the past government bonds have yielded close to 5 percent and the Congressional Budget Office projects that over time government bonds are likely to return to approximately that level.

[17] This example assumes no administrative cost for the 401(k) plan. Including administrative costs would increase the difference in benefits between a 401(k) plan and a traditional defined benefit pension, because in a 401(k) administrative costs are mostly borne by the employee while in a traditional pension such costs are rolled into the overall cost of the and borne by the employer.

[18] For instance, see Justin Falk, “Comparing Benefits and Total Compensation in the Federal Government and the Private Sector,” Congressional Budget Office Working Paper 2012-4 (working paper, January 2012); and

Despite the greater average generosity of the County pension plan over a typical 401(k), there are reasons why an employee might prefer a 401(k) plan even over a traditional defined benefit pension. Traditional pensions are more generous for employees who are covered by the plan when they retire, but often less generous for younger employees who work under the pension plan for a few years and then go on to a different job until retirement. This is a result of so-called "backloading" in traditional pensions, in which an employee can go many years while earning few benefits then have his benefit accruals shoot up rapidly toward the end of his career. What this means is that annual total compensation is substantially higher for a late-career County employee than for a new employee, even apart from the differences in their salaries.

Figure 1 below illustrates the lifetime retirement benefits a beginning employee could expect to receive from the County pension plan versus a typical 401(k) plan. Benefits are illustrated for individuals who began working at age 21 in the year 1974 and had various career lengths with the County. All are assumed to eventually retire in 2015 at age 62. For instance, one employee might work for the County for only 5 years, then go on to a different job for the remainder of his career. Another might stay in County employment for 15 years, while another might spend a full 41 years working for the County. Under the County plan, the employee contributes 6 percent of his wages and receives a benefit based upon his final earnings. In the 401(k) plan, the employee is assumed to contribute 6 percent of his pay and receive an employer match equal to 3 percent of pay. Accounts receive a 5 percent rate of return. Once an employee quits his job, contributions are no longer made but the account balance continues to earn 5 percent interest until retirement at age 62.

For each length of service, we calculate the ultimate benefit the employee would be eligible to receive at retirement. In the County retirement plan, employees do not "vest" in their benefits until 5 years of service. Employees who leave County service prior to 5 years of service receive back their own contributions plus a 1 percent contribution from the County, along with 6.5 percent interest. In that

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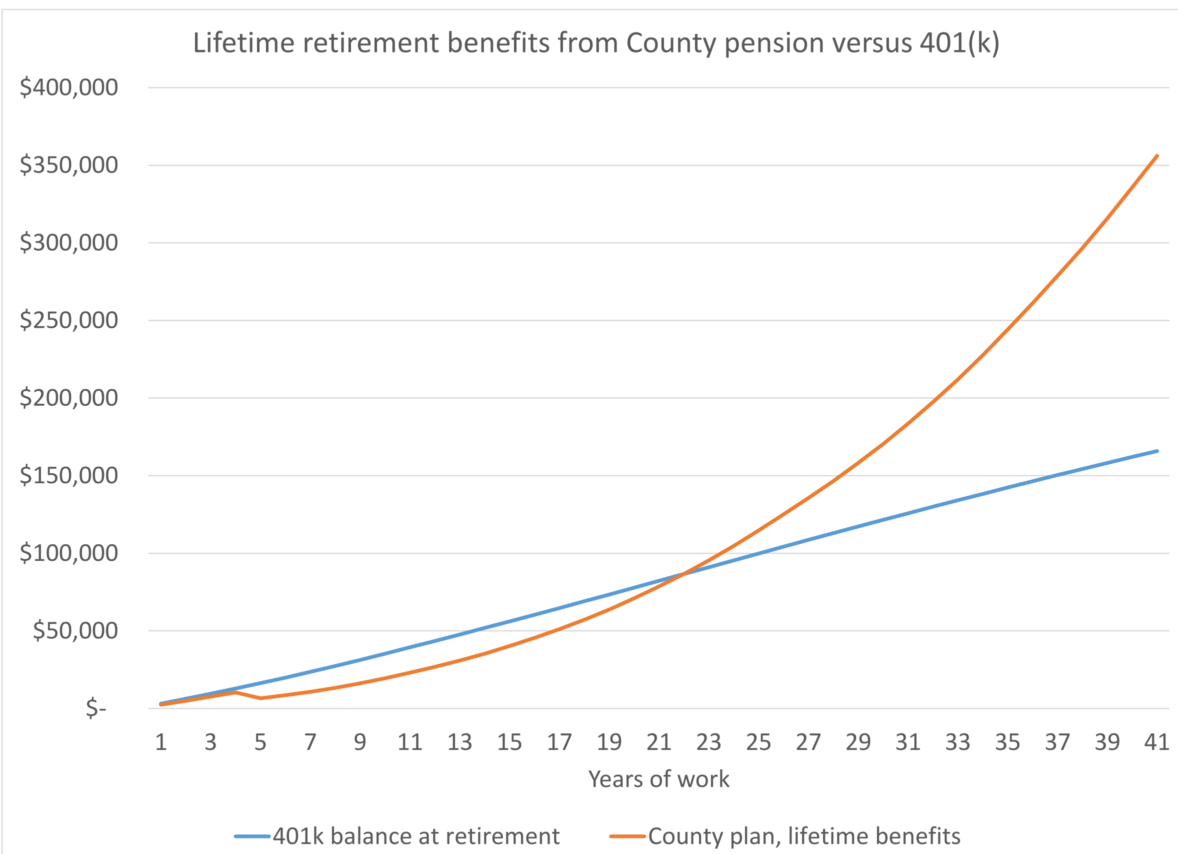
Marshall B. Reinsdorf and David G. Lenze, "Defined Benefit Pensions and Household Income and Wealth," Bureau of Economic Analysis. Research Spotlight, (August 2009). Also see David G. Lenze, "Accrual Measures of Pension-Related Compensation and Wealth of State and Local Government Workers," Bureau of Economic Analysis (April 2009). Both approaches start with the "normal cost" of a pension plan, which is the cost of benefits accruing to employees in a given year. Most state/local pensions calculate the normal cost assuming an investment return of 7-8 percent, based on a portfolio of risky assets. The CBO/BEA methods lower the assumed return to a bond yield, to reflect the fact that the benefits offered to employees are safe because the government sponsoring the pension plan bears the investment risk. This is the more technically correct approach because it covers all participants and all benefits (such as disability) offered to them, but overall it produces results similar to the simpler examples used above.

case, we assume that those returned contributions are invested at a 5 percent interest rate and held until age 62. For County employees with 5 or more years of service, we calculate the annual benefit they would be eligible to receive at age 62 under the County plan, then calculate the total lifetime benefits the individual could expect to receive. This allows the County's traditional pension to be compared to the lump sum account balance that a participant in a 401(k) holds at the time he retires.

What the chart shows is that for young workers, a 401(k) plan – even funded with only a 3 percent employer match – produces higher benefits up until about 20 years of job tenure. For instance, a young person who works for the County for 10 years would receive a retirement benefit under the County plan only about 55 percent as much as he would receive if had a typical 401(k) plan. After about 20 years, however, the County pension plan becomes more generous. An employee who works 35 years, for instance, will receive about 1.7 times more in lifetime benefits from the County than he would receive from a typical 401(k) plan.

Figure 1.



From a human resources point of view, a 401(k) plan is likely to be better at attracting new employees while a traditional pension plan is likely to be better at retaining employees from mid-career onward. Whether retention of mid-career employees should be given priority over attracting new employees depends upon the degree to which County employees' productivity increases with their number of years on the job. If an older County employee is much more productive than a younger employee doing the same job, then emphasizing retention may make sense. There is little existing research on how government employees' productivity changes along with their years of job tenure. With public school teachers, most research finds that effectiveness rises until the teacher has about five years of job experience, after which it remains roughly stable.[19] But not much research has been done on productivity and experience for government employees other than teachers.

Even assuming the County wishes to favor older, more experienced employees, it should weigh whether a traditional pension plan is the most effective way to do so. The recent Oregon Supreme Court ruling with regard to Oregon PERS made clear that once a pension benefit is granted under a public sector plan it is nearly impossible to withdraw those benefits. More broadly, in the public sector it is generally assumed that once an employee is hired, the terms on which he earns future pension benefits can never be changed. By contrast, while the federal Employee Retirement Income Security Act prohibits a private sector employer from defaulting on benefits that already have been earned, an employer may alter the rate at which employees earn *future* benefits. The ability to alter rates of future benefit accrual provides employers with the flexibility to alter their benefit package over time, disciplined by the need to attract and retain employees. Employers who wish to increase retention of more experienced employees could do so through other means, such as by adjusting the rate of salary increases in employee benefit schedules.

To sum up, the Klamath County pension system is, on average, significantly more generous than the typical 401(k) plan that private sector workers participate in and significantly more costly for the County government to provide. Moreover, many Klamath County private sector employees are not even offered a retirement plan and must save without the benefit of an employer contribution. Thus compensation through pension plans is substantially higher for County employees than for the typical private sector employee in the County. However, the County's traditional defined benefit pension plan is

[19] For instance, see King, Jennifer Rice. "The Impact of Teacher Experience Examining the Evidence and Policy Implications." The Urban Institute, August 2010. www.urban.org/.../1001455-The-Impact-of-Teacher-Experience.PDF

not better for all County employees. Specifically, full-career County employees receive a much higher benefit than they would be likely to receive in a 401(k) plan, but younger, more mobile employees might actually prefer a 401(k) due to the portability it offers between jobs.

Comparing Paid Leave

Paid leave generally includes vacation time, holidays and sick leave. In some cases, such as the County, employees receive a given amount of leave allocated between these three categories. In others, employee receive a total number of annual leave days that the employee allocates for his own purposes. Relative to a job that does not offer any time off, paid leave is equivalent to an hourly or weekly wage increase: that is, the employee can earn the same total annual salary with fewer hours or weeks of work.

County employees receive vacation time based upon their number of years of service. Through 6.7 years of service employees receive 10 days per year (two weeks) of vacation time, rising to 25 days per year (five weeks) for employees with 20 or more years of job tenure. In addition, County employees receive twelve paid holidays per year.[20] Full-time employees earn sick leave of approximately one day per month, or 12 days annually. Employees may accrue up to 161 days of sick leave. Employees can use accrued sick leave to take time off to care for a family member, but cannot cash out their benefits when they quit or retire.

The average County employee has about 10 years of current job tenure[21] and receives under the schedule 15 days (three weeks) of paid vacation. Adding paid holidays produces paid time off of 27 days while sick leave increases the total to 39 days.

Data on paid leave in the local labor market are scarce. Bureau of Labor Statistics data show that, in the Pacific states as a whole, 75 percent of private sector employees receive paid holidays, 61 percent receive paid sick leave, and 71 percent receive paid vacation time.[22] Contingent upon receiving these benefits, the median private sector worker nationally receives 8 paid holidays,[23] six days of sick

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[20] These include New Year's Day, Martin Luther King, Jr. Day, President's Day, Memorial Day, Independence Day, Labor Day, Veteran's Day, Thanksgiving Day, the day after Thanksgiving, Christmas Day, and two Floating Holidays.

[21] From actuarial valuation of County pension plan.

[22] http://www.bls.gov/ncs/ebs/benefits/2015/ownership/private/table32a.htm

[23] http://www.bls.gov/ncs/ebs/benefits/2015/ownership/private/table33a.htm

leave[24] and 15 days of paid vacation after 10 years of work. If we multiply the probability of receiving these benefits by the average generosity of the benefit conditional upon receiving it, the average benefit for all private sector employees is about 6 paid holidays, 3.7 days of paid sick leave, and 10.7 days of paid vacation after 10 years of work. Combined, these equal 20.4 total days of paid leave per year for a worker with 10 years of job tenure. (Table 1.)

Table 1. Percent of employees in Pacific Census Division receiving different types of paid leave

	Paid holidays	Paid Sick leave	Paid vacations
Probability of receiving benefit	75%	61%	71%
Average days contingent on receiving	8	6	15
Probability-weighted days	6	3.7	10.7

Source: Bureau of Labor Statistics, National Compensation Survey. Pacific Census Division consists of Alaska, California, Hawaii, Oregon, and Washington.

The local statistics we could find appear similar. Jeld-Wen is shifting to a leave structure in which employees receive a total pool of leave days which combine vacation, holidays and sick leave. It appears that a starting employee would receive about 23 total leave days and an employee with 10 years' experience would receive about 32 days overall. This is slightly above the national average for workers with 10 years of job tenure.

A starting nurse at the Sky Lakes Medical Center whose compensation was covered by the Center's contract with the Oregon Nurses Association would receive a maximum of 180 hours (22.5 days) of combined paid time off each year. Nurses hired prior to 2011 and having up to four years job tenure receive slightly greater leave of 10 days of vacation, 9 holidays and 6 days of sick leave, for a total of 25 days of leave per year. Again, leave increases with years of job tenure. A nurse with 10 years job tenure would be eligible for about 32.5 annual days of paid time off, including sick leave.

It is worth noting that in 2015 Oregon passed a law requiring employers to provide paid sick leave to employees. It remains to be seen whether this law will increase the total leave or total compensation received by employees, or whether employers will lower other types of paid leave or reduce other forms of employee compensation to cover the costs of mandatory sick leave.

[24] http://www.bls.gov/ncs/ebs/benefits/2015/ownership/private/table35a.htm

A County employee with 10 years' experience receives about 7 extra days of paid leave versus a Jeld-Wen or Sky Lakes employee with similar experience. If we assume a potential working year of 260 days, an extra 7 days of paid leave is equivalent to receiving a 2.9 percent increase in hourly or weekly wages. It would be desirable to have additional information on the paid leave policies of private employers in the local labor market, particularly small businesses. However, given that large private sector employers tend to offer the most generous paid leave and the County's leave policies exceed those of the two largest employers in the area, it is likely that County employment provides more paid leave than most private sector jobs in the area.

Comparing Total Compensation

Given the quantity and quality of data available, it is difficult to make hard-and-fast conclusions regarding total compensation paid to Klamath County employees versus private sector jobs in the local labor market.

We see little evidence that County salaries are dramatically different, either positive or negative, relative to the salaries offered to similarly qualified private sector workers or to private sector workers in similar jobs. Wages are not precisely equal, which is not surprising given that neither the jobs nor the workers filling them are likely to be exactly the same. But there does not seem to be a systematic difference between the two.

Moreover, a comparison of total employee compensation must include benefits, which tend to be different between the public and private sectors. The health insurance benefits offered to County employees are about one-quarter more generous than plans offered by Oregon private sector employers, and not every private employer in Oregon offers a health plan. Similarly, the County appears to offer its employees about nine additional days of paid time off – vacation, holidays and sick leave – than large employers in the area. There is likely an even greater difference between the County and the average private business in our labor market.

The retirement plan offered by the County is also, on average, substantially more generous than the average private sector employee can expect to receive. Only about 42 percent of private sector employees in rural Oregon report being offered a retirement plan at work,[25] and among those the typical plan would be a 401(k) with an employer contribution of about 3 percent of employee payroll.

[25] Data from Census Bureau's Current Population Survey, 2014.

On average, the County retirement program provides average benefits that are significantly greater than those of a 401(k), though this comes at a cost to the County that is today roughly six times higher than private sector employers pay toward their 401(k) plans. However, the County's traditional pension does not produce higher benefits for every government employee. Employees who spend less than a full career with the County – in particular younger employees who start with the County and then go on to another job – could often do better with a 401(k). Thus, County policymakers should consider both the cost of their plan and the purpose of it: a 401(k) plan is better at attracting new employees, while a traditional pension is better a retaining mid-career employees.

Conclusions

It is important the pay for government employees be fair both to the employee and to taxpayers who support them. Most experts consider the most appropriate level of public sector compensation to be that which the public employee would receive in a private sector position. Paying comparable compensation between the public and private sectors allows the government to attract employees out of the private sector labor force without paying more than it has to. Until now, a public-private compensation comparison had not been attempted for Klamath County, but such comparisons are increasingly common around the country as governments attempt to balance budgetary demands while still attracting and retaining the employees they require.

It appears that the Klamath County government offers employees salaries that are more or less on par with the private sector. Neither our analysis of Census Bureau survey data nor our sampling of local salaries lead us to conclude there is a fundamental over- or underpayment with regard to salaries. However, we did find that the three main types of fringe benefits – retirement pay, health coverage and paid time off – were significantly more generous in the County government than in private sector jobs. The additional generosity of the County's pension plan is worth roughly an additional 12 percent of salaries for the average employee, though career employees are treated far more favorably than those who work for the County for a shorter period. The additional generosity of the County's health coverage versus a typical private sector plan is equal to about 6 percent of County employees' annual salaries, while additional paid leave is equal to about 3 percent of annual salaries. Putting those benefits together, their greater generosity is equal to an annual salary increase of about 21 percent. Since the total salary base for the County's non-public safety employees is about $15 million, this implies a total budgetary cost of the compensation premium over the private sector of about $3.15 million per year.

Given that public and private sector salaries appear to be comparable, more generous benefits imply that average *total average compensation* for County employees is roughly one-fifth above private sector levels. This does not imply that every County employee is “overpaid.” Some County employees could surely receive higher compensation were they to shift to a private sector position. However, these figures indicate that, on average, the County government compensates employees at higher rates than those employees would be likely to receive were they to be employed in the private sector labor market in Klamath County.